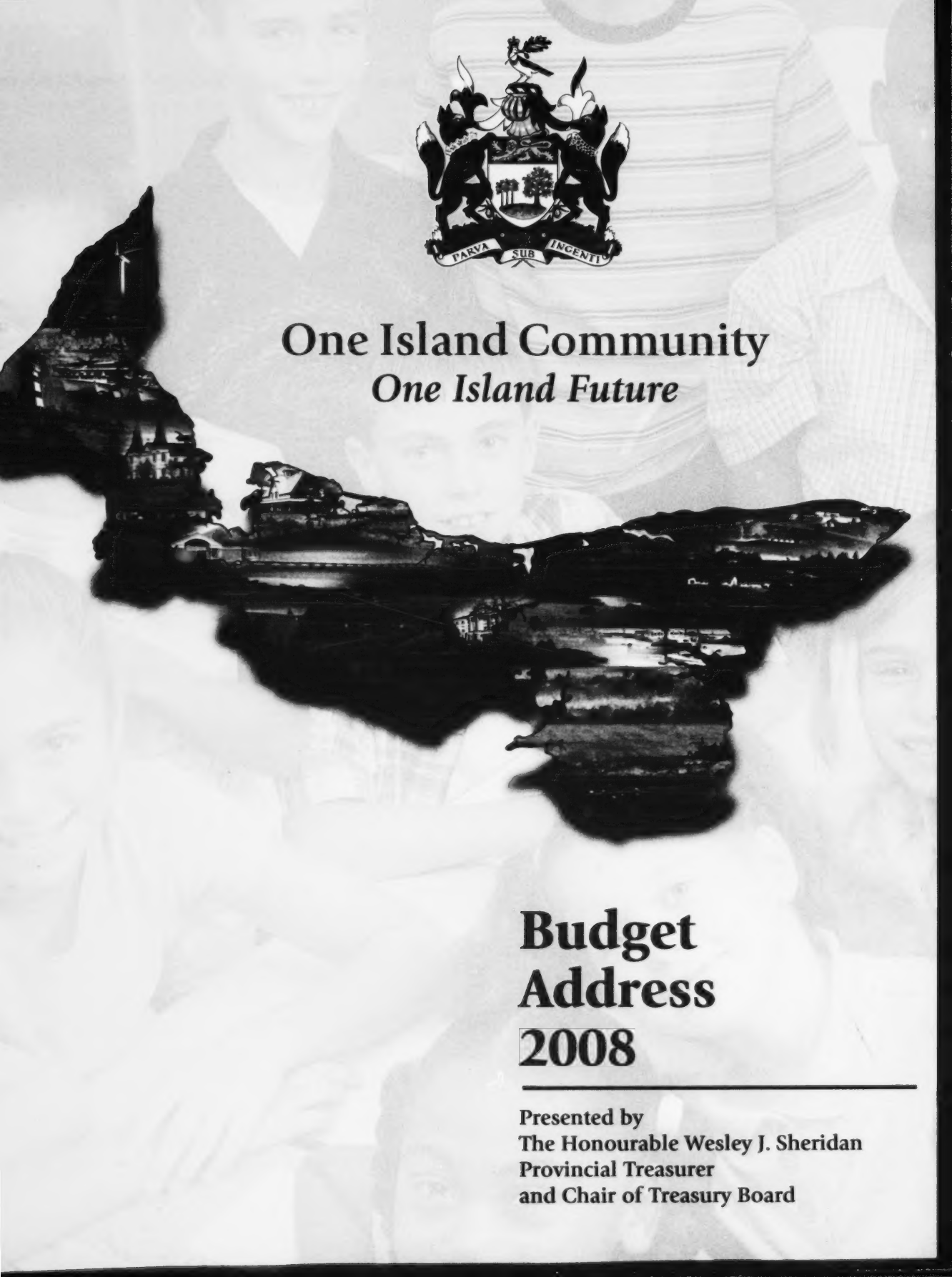

One Island Community
One Island Future

Budget Address 2008

Presented by
The Honourable Wesley J. Sheridan
Provincial Treasurer
and Chair of Treasury Board

/ 2008-05102/

Prince Edward Island

2008 Budget

One Island Community

One Island Future

Presented to
The Members of the Legislative Assembly of Prince Edward Island

by

Honourable Wesley J. Sheridan

Provincial Treasurer
and
Chair of Treasury Board

April 23, 2008

The full texts of the Budget Address, Estimates of Revenue and Expenditure and supporting schedules for 2008-2009 and previous years are available on the Province of Prince Edward Island's website:

http://www.gov.pe.ca/budget

PRINCE EDWARD ISLAND
2008 BUDGET

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THE BUDGET ADDRESS

One Island Community - One Island Future

Madame Speaker, I am very pleased and honoured to rise today and deliver a budget that will set a purposeful and clear direction for Prince Edward Island.

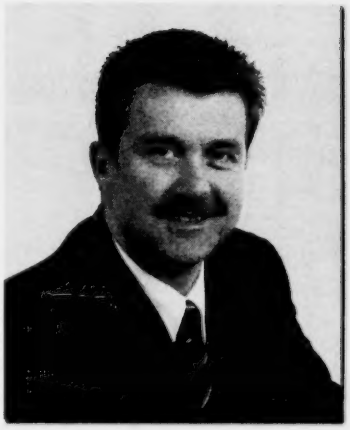
Since Government was elected less than 11 months ago with a strong mandate for change, many innovative and progressive measures have been taken.

Today, Government will build on that record of change and continue to emphasize its central and guiding theme: Our best investment is our people.

As the Premier is fond of saying, we may not be rich in minerals, oil and timber, but we are blessed with a society that truly places the interests of our Province above all other considerations.

Madame la Présidente, l'Île-du-Prince-Édouard est une collectivité remarquable, qui accueille tous les individus, les familles et les communautés. Ensemble, en travaillant vers une même visée, nous pouvons accomplir de grandes choses.

We are one Island community. And if we are unified as a Province, then our only boundaries are formed by the shoreline that embraces our Island.



" We are one Island community. And if we are unified as a Province, then our only boundaries are formed by the shoreline that embraces our Island."

The recent Speech from the Throne calls on Islanders to respond to the challenges of a world that is rapidly changing. Today, the fiscal agenda I have the honour to deliver elaborates on Government's plan to meet those challenges.

Madame Speaker, Government truly believes there is a solemn duty and obligation to move beyond the short-term and pursue initiatives that will lay a sustainable foundation for generations to come.

"Government truly believes there is a solemn duty and obligation to move beyond the short-term and pursue initiatives that will lay a sustainable foundation for generations to come."

Great opportunities lie within our Island's grasp. But care must be taken. In a world buffeted by change, we must be deliberate and we must be constant. Our choice is simple: As a Province, will we allow ourselves to be jolted by the forces of change? Or will we harness those forces to our current and future advantage?

Madame Speaker, like the Speech from the Throne, today's budget is founded on five strategic priorities:

- A sustainable health care system that places the interests of individual Islanders above all other considerations;
- An education system that invests in Islanders by offering them better access to high quality programs;
- An economic strategy that blends our traditional industries with new opportunities;
- Environmental stewardship that protects and promotes our natural heritage; and
- An understanding that Government must constantly seek to improve the way that it delivers services and programs to all Islanders.

"...Government must constantly seek to improve the way that it delivers services and programs to all Islanders."

Madame Speaker, as a Province, we have to defeat the temptations of the short-term fix and the instant solution. We understand the dangers and pitfalls of such an approach - and Government will not succumb to those who seek temporary and fleeting relief from challenges that require a deeper and more lasting resolution.

Instead, Government is carefully and thoughtfully proposing plans meant to benefit our Island well into the future.

A prime example is the economic strategy that was recently announced. That strategy - which combines ambition with balance, will help to guide Government's economic efforts until 2014. I am particularly proud of the fact that the strategy fully incorporates accountability mechanisms that will guarantee an unprecedented level of transparency and openness in the way taxpayers' dollars are invested in our emerging economy.

Investing in Islanders

Madame Speaker, Government is highly committed to measures that will enhance the ability of individual Islanders and families to prosper and thrive in order to build a stronger Province.

"...Government is highly committed to measures that will enhance the ability of individual Islanders and families to prosper and thrive in order to build a stronger Province."

In many respects, this commitment to every Islander means that Government must aggressively enhance the way social programs are delivered.

Of course, it follows naturally from this recognition that major improvements are required in health care, education and social services.

Madame Speaker, in light of these fundamental obligations, Government will continue to require deficit financing for the current year. Last year's anticipated deficit of $42.3 million has been forecasted to come in at $36.6 million and this year we have budgeted for a reduced deficit of $34.9 million.

Government strongly desires balanced books within as short a time frame as possible. Currently, our finances are headed in the right direction, and I am confident that a steady and cautious approach to both revenue and expenditure management will result in fiscal balance in the relative short-term.

Health and Well-Being of Islanders

Madame Speaker, Government's first priority must be the health of Islanders.

Therefore, Government must firmly support a health care system that responds to the needs of all Islanders - both in terms of promoting health and treating illness.

"... Government must firmly support a health care system that responds to the needs of all Islanders - both in terms of promoting health and treating illness."

The challenges facing Government in this field are well known to every Islander. Across Canada, every province struggles with similar issues: professional recruitment and retention; higher costs; access to services and an aging population.

Madame Speaker, I am proud to belong to a Government that is not daunted by these challenges. Instead, the Government has taken decisive steps to confront the issues that face our health care system.

This Winter, the Department of Health created an Office of Recruitment and Retention, which has produced significant results in a short period of time. This year, funding for health recruitment and retention will be $4.7 million. Indeed, in 2008-2009 we will spend an additional $2.3 million on new physicians who will be coming to the Island to practice.

"...in 2008-2009 we will spend an additional $2.3 million on new physicians who will be coming to the Island to practice."

As a result of these efforts, Madame Speaker, I am proud to report that Prince Edward Island now has the highest number of physicians in provincial history.

"...Prince Edward Island now has the highest number of physicians in provincial history."

That said, Madame Speaker, there is much more to do. Improving access to primary care must be a fundamental goal, and Government is committed to its objective of ensuring that every Islander has access to a family physician.

"...Government is committed to its objective of ensuring that every Islander has access to a family physician."

A major component of that effort is the introduction of a Family Medicine Residency Program. This initiative is important for two key reasons. First, a Residency Program offers the opportunity for young Island doctors to receive more of their training in our Province. Second, it is far more likely those doctors will stay on our Island if they are given the opportunity to enjoy an early phase of their professional development here.

Madame Speaker, our full Family Medicine Residency Program will begin in 2009, with an anticipated budget of $1.2 million in its first year.

"...our full Family Medicine Residency Program will begin in 2009, with an anticipated budget of $1.2 million in its first year."

In preparation for the full program, I am proud to announce that a pilot Residency Program will begin this year, with an initial cost of $220,000.

Madame Speaker, another professional field that has challenged every jurisdiction is the recruitment and retention of nurses.

We are fortunate that the University of Prince Edward Island offers a nursing program. Government will invest a further $356,000 this year to improve training capacity with an Accelerated Nursing Program. This will see additional nursing graduates year after year. Further to that, Madame Speaker, an additional $192,000 will be spent as we integrate the growing Nurse Practitioner profession into our health care system, including additional resources at the Cancer Treatment Centre.

Madame Speaker, another vital area of the health care system revolves around treatment and medication.

One area of increasing concern is the growing prevalence of diabetes, and the treatment cost borne by many Islanders.

Based on that understanding, Government is extremely pleased to announce that commencing in the Fall of 2008, diabetic strips for insulin-dependent Islanders will be covered as a public service.

"...in the Fall of 2008, diabetic strips for insulin-dependent Islanders will be covered as a public service."

The details of this coverage will be designed in close collaboration with health care professionals and the Canadian Diabetes Association.

The Fall start-up will allow for adequate program development. It will also allow the results of a national panel on diabetes and blood glucose testing to be released this summer to help determine the required scope of daily testing.

This new initiative is an investment of $1.5 million in 2008-2009 in the health of thousands of Islanders.

We made a commitment to ensuring Islanders have access to vital medication. As a result, in 2008-2009, my Government will spend $3.9 million more in public support for medications than in 2007-2008. This represents an increase of fourteen per cent in provincial drug spending.

"...in 2008-2009, my Government will spend $3.9 million more in public support for medications than in 2007-2008. This represents an increase of fourteen per cent in provincial drug spending."

Madame Speaker, another area that requires immediate attention is Prince Edward Island's Cancer Strategy.

Over the next year, Government will spend nearly $2 million in improvements to cancer prevention and treatment.

"Over the next year, Government will spend nearly $2 million in improvements to cancer prevention and treatment."

Madame Speaker, some of these advances include:

- A Colorectal Cancer Screening Program, with a first-year cost of nearly $200,000;
- An additional $216,500 for mammography screening;

- A new pilot program to provide palliative care at home, with an initial investment of $275,000;
- The introduction of the Patient Navigator system;
- The increase in cancer medications budget by more than $500,000;
- A Radiation Pilot Project will receive $461,000;
- An Endoscopic Expansion at the Queen Elizabeth Hospital will receive $166,400;
- An allocation of $50,000 will go toward a Radon Inspection Program.

Madame Speaker, far too many Island families are hurt by cancer. But modern science has learned that many cancers are preventable - with appropriate screening and prevention programs.

For example, breast cancer is a leading cause of cancer death on Prince Edward Island. This Budget will result in a significant enhancement to our screening program. To that end, Government will contribute $835,000 toward the purchase of state-of-the-art digital mammography equipment.

"...Government will contribute $835,000 toward the purchase of state-of-the-art digital mammography equipment."

Madame Speaker, another concern of Government is the reduction of wait times. Virtually everyone knows how difficult the uncertainty of diagnosis can be. For that reason, Government will invest a further $2 million in increased funding for reducing wait times in radiation therapy, sight restoration, diagnostic imaging and joint replacements. Another $600,000 will be spent to improve patient safety initiatives that flow from the recent accreditation process.

"...Government will invest a further $2 million in increased funding for reducing wait times in radiation therapy, sight restoration, diagnostic imaging and joint replacements. "

Overall, Madame Speaker, this Budget will see a further $21.6 million invested in our provincial health care system.

This is a major increase in spending, and will improve the way Islanders gain access to these vitally important services.

Madame Speaker, we are fortunate to have a network of hospitals, manors and other facilities across our Province.

Government believes that each and every institution can perform a more vital role in the delivery of health care. Over the next year, $17.7 million will be assigned to the modernization of hospitals, manors and other facilities.

"Over the next year, $17.7 million will be assigned to the modernization of hospitals, manors and other facilities."

Madame Speaker, our Government is pleased to announce initiatives to support children, seniors, families and the wellness of all Islanders.

I am proud to be part of a government that places a high priority on the provision of long-term care. Indeed, many aspects of the long-term care sector have been overlooked in recent years.

Soon after my Government was elected, we commissioned work to assess the trends and needs in long term care in the Province. The report of this comprehensive study will be tabled during this session of the Legislative Assembly.

Our Government will begin planning to replace some of the long-term care beds that were removed from the system since 1995. In addition, many of our public manors are functionally inadequate to meet the needs of their target population. Government will develop a five-year manor replacement strategy that will be included in the Capital Budget to be tabled this Fall. Phase one of our manor replacement program will include the Prince Edward Home and Summerset Manor. Subsequent phases will include replacement of Colville Manor, Maplewood Manor and Riverview Manor.

"Government will develop a five-year manor replacement strategy that will be included in the Capital Budget to be tabled this Fall."

In addition, my Government will begin planning to significantly enhance our home care program to enable seniors and other Islanders to receive care at home and thereby decrease our reliance on institutional care.

Madame Speaker, our Government remains committed to enhancing programs and services to Islanders with disabilities. In 2007-2008, we eliminated income testing for families with children under the age of 18 who have a disability. This resulted in an increase of just over $900,000 to implement that decision.

To continue to promote equity and improved access to programs and services, my Government implemented a ceiling rate increase in late 2007 which is the first time the Disability Support Program has seen an increase since 2001.

In 2008-2009, my Government is engaged with stakeholders in a review of the Disability Support Program. The outcome of this review will help shape future improvements to services for Islanders living with disabilities.

Further, Madame Speaker, Government will eliminate Air Ambulance Transfer fees for Islanders and will cover ground ambulance services for Islanders going out of the Province.

"...Government will eliminate Air Ambulance Transfer fees for Islanders..."

Again, Madame Speaker, the additional infusion of nearly $21.6 million in health care is testimony to our belief that this most vital of services is Government's first priority.

"...additional infusion of nearly $21.6 million in health care is testimony to our belief that this most vital of services is Government's first priority."

Investing in Island Education

Madame Speaker, 12 days ago, Government announced the most ambitious economic strategy planned by an Island Government in several decades.

Island Prosperity - A Focus for Change sets out a series of determined and purposeful goals, which will rely on the strength of individual Islanders to succeed.

Madame Speaker, Government believes the seeds of an economic transformation have been planted - and the key to that goal lies within a new emphasis in the education system.

"...Government believes the seeds of an economic transformation have been planted - and the key to that goal lies within a new emphasis in the education system."

Beginning this year, every first-year Island student entering a provincially-funded post-secondary institution to attain a degree or diploma will receive up to $2,000 from the George Coles Bursary. This year, Government will invest $2 million in this program.

"...every first-year Island student entering a provincially-funded post-secondary institution to attain a degree or diploma will receive up to $2,000 from the George Coles Bursary."

The opportunity for many more young Islanders to study the arts, business, science and trades is among the most important of the initiatives in the 2008-2009 Budget.

Madame Speaker, Government believes this will attract many more young Islanders into post-secondary education, and the benefits to our Province will immediately accelerate and then build over time.

Madame Speaker, within the public education system, planning for the integration of kindergarten will begin this year - accompanied by a full process of engagement and consultation.

"...planning for the integration of kindergarten will begin this year - accompanied by a full process of engagement and consultation."

In recognition of the fact that Island children deserve the best we can possibly afford, a further $2 million will be invested in the initiatives associated with the Task Force on Student Achievement. This brings the total spending in this specific area to $5 million in the current fiscal year. New initiatives this year include $752,000 for literacy programs and assistance, $400,000 for curriculum enhancements and $250,000 for the International Baccalaureate Program.

Other new expenditures include:

- Continued implementation of the Staffing and Funding Model with the addition of six teaching positions;
- Special education expenditures, including psychologists, is increased by $540,000;
- New funding for the Prince Edward Island Volunteers for Literacy to support the Let Older Volunteers Educate initiative, in which Islanders read with children in schools;
- Increased English as an Additional Language funding of $500,000;
- Begin the process of eliminating curriculum-based user fees through a $100,000 investment; and
- New funding of $100,000 to support school Breakfast Programs across Prince Edward Island.

Madame Speaker, Government also strongly believes that support for families and our youngest Islanders should begin early.

For that reason, Madame Speaker, I am very pleased to announce that spending on the Best Start Program will grow to more than $1 million this fiscal year. That represents an increase of $219,000.

"...spending on the Best Start Program will grow to more than $1 million this fiscal year. That represents an increase of $219,000."

Support for the Best Start Program will be expanded to assist families with children up to two years of age, which signifies Government's commitment to the early years.

Further, Madame Speaker, an additional $389,500 will be used to fund child care maintenance and child care special needs as part of the Early Learning and Child Care Action Plan.

"...an additional $389,500 will be used to fund child care maintenance and child care special needs as part of the Early Learning and Child Care Action Plan."

Environment

Madame Speaker, in addition to social supports, Government fully understands the environmental challenges facing Prince Edward Island.

Over the past number of years, Islanders have become far more environmentally-conscious and Government will reflect the growing concern in tangible programs.

Later this year, the Commission on Nitrates in Groundwater chaired by the Honourable Armand DesRoches will be finalized. Madame Speaker, on behalf of Government and all Islanders, at this point I would like to thank Justice DesRoches for taking on this enormous task.

While Government looks forward to the work of the Commission, steps are being taken now to address known issues associated with nitrates in groundwater.

"...steps are being taken now to address known issues associated with nitrates in groundwater."

The new Alternate Land Use Services (ALUS) initiative will reward landowners and producers who implement sustainable land management practices that go beyond regulatory requirements.

The $750,000 in new spending on this initiative will reward those landowners whose individual contributions to our Province's environmental health helps us all. The program will contribute to the reduction of soil, nutrient and pesticide runoff while simultaneously promoting biodiversity and the enhancement of fish and wildlife habitat throughout our Province.

Madame Speaker, the success of our Province's Watershed Management Program will also be strengthened through a further investment. That new funding will bring the Program to $520,000 this year.

"..the success of our Province's Watershed Management Program will also be strengthened through a further investment. That new funding will bring the Program to $520,000 this year."

The program focuses on community-based watershed planning and lays the groundwork to identify lands that could be managed under the ALUS program.

Madame Speaker, I am also pleased to announce that Government's successful introduction of free nitrate clinics will continue for another year. This program allows all Islanders to measure the quality of their water without any direct cost.

"... Government's successful introduction of free nitrate clinics will continue for another year. This program allows all Islanders to measure the quality of their water without any direct cost."

Finally, Madame Speaker, the introduction of canned beverages and the deposit system should result in less environmental contamination on our landscapes and shorelines. This year, revenue derived from the new system will see an additional $1 million for environmental initiatives, such as increased funding for community watershed groups.

Primary Industries

Agriculture

Madame Speaker, Government understands that agriculture forms the backbone of our economy. We recognize that our traditional industries have been challenged in recent years in the face of global market trends. Government is therefore committed to assisting our farmers in navigating through these uncertain times toward a more prosperous and stable future.

Since taking office, Government has spent over $12 million in grants and loan relief to hog producers, as well as $3 million to beef producers to deal with a nation-wide crisis in these areas. We are proud of the commitments we have made to date in support of these industries, but we recognize that ongoing support for the entire agricultural industry is necessary for its well-being.

"Since taking office, Government has spent over $12 million in grants and loan relief to hog producers, as well as $3 million to beef producers to deal with a nation-wide crisis in these areas."

Madame Speaker, the difficulties facing the agriculture sector are widely-known and require long-term solutions.

For that reason, Government must assist the agriculture sector to take a more strategic approach. To that end, Government will be unveiling a new Sustainable Diversification Initiative for agriculture.

"...Government must assist the agriculture sector to take a more strategic approach. To that end, Government will be unveiling a new Sustainable Diversification Initiative for agriculture."

Phase One of our new Sustainable Diversification Initiative will include:

- Renewed emphasis on research and development into cereals and oil seeds, in order to determine which varieties provide the appropriate hardiness and yields for our climate;
- The development of incentive programs to encourage further development of alternative crops through consultation with industry;
- Consultation with the Prince Edward Island Grain Elevators Corporation (GEC) to complete a review of the GEC infrastructure with a view to enhancing cereal and oilseed opportunities for Island farmers;
- An assessment of market opportunities for alternative crops;
- An analysis of opportunities for green cover crops for nutrient uptake and soil erosion management; and
- A commitment that safety net programs for alternative crops will provide adequate support for producers.

In support of this initiative, I am pleased to announce today the establishment of an Agriculture Innovation Fund, which will assist and encourage farmers to pursue product diversification and value-added technologies. This Budget allocates $200,000 to assist in the creation and development of new and innovative market products.

"In support of this initiative, I am pleased to announce today the establishment of an Agriculture Innovation Fund, which will assist and encourage farmers to pursue product diversification and value-added technologies."

Further, Government will establish an Agriculture Research Fund, with an annual allocation of $200,000 for three years. This Fund will support applied and developmental research that will ultimately benefit the agricultural community in Prince Edward Island.

"...Government will establish an Agriculture Research Fund, with an annual allocation of $200,000 for three years."

Madame Speaker, Government believes that it is vitally important for our farmers to have the support of both their Government and the local community. That is why we are announcing a new Buy Local Initiative, with an annual allocation of $500,000, which will seek to increase public awareness, support and demand for locally-grown and processed foods. We know that Islanders are extremely loyal to our Province, and we are confident that this Initiative will result in this loyalty translating into increased demand for Island-grown products.

"...Government believes that it is vitally important for our farmers to have the support of both their Government and the local community. That is why we are announcing a new Buy Local Initiative, with an annual allocation of $500,000 ..."

In addition to these initiatives, Government is:

- establishing a new Agri-Insurance Program will expand to include livestock producers and enhance the level of business risk management support offered under previous programs;
- increasing the funding for the Future Farmer Program to $700,000 to assist and encourage new farmers to enter the industry;
- supporting Phase Three of the Hog Transition Program, with a budget of $1.4 million to provide assistance to hog producers looking to transition to a new business model; and
- proceeding with the Beef Industry Initiative to provide producers with genetic herd health incentives.

It is Government's belief that these investments and allocations will serve the agricultural industry well and assist our farmers to thrive in this new and challenging global marketplace.

Fisheries

Madame Speaker, Government also believes that support for the fishery and for aquaculture is vital to the success of our entire economy, given the important role these industries play in our Island way of life.

"...Government also believes that support for the fishery and for aquaculture is vital to the success of our entire economy, given the important role these industries play in our Island way of life."

In that regard, and as highlighted in the recent Speech from the Throne, Government is proceeding with a four-year Lobster Initiative, which will assist the Department to address issues facing the sector and explore opportunities for further growth. This Initiative will dedicate an additional $100,000 in programming for the lobster industry.

Government will also work in cooperation with its federal counterparts to develop a Mussel Aquaculture Productivity Improvement Fund in conjunction with the Prince Edward Island Aquaculture Alliance. The Fund, built on a federal-provincial partnership, will assist the Prince Edward Island mussel sector to continue to explore technology needs to address the threat of aquatic invasive species.

The Prince Edward Island oyster industry offers tremendous potential to diversify the fishery and promote development of our economy. Both the public oyster fishery and private aquaculture leases have potential for further development with a focus on high quality oysters.

"The Prince Edward Island oyster industry offers tremendous potential to diversify the fishery and promote development of our economy."

The Oyster Development Program will build upon this success. New funding of $100,000 will be used to expand the Oyster Enhancement Program carried out by the Prince Edward Island Shellfish Association, create a new Quality Oyster Aquaculture Program and sponsor projects to upgrade access to the shore for

oyster fishers and growers.

Investing in Communities and Infrastructure

Madame Speaker, the Speech from the Throne talked about the need for our Province to adopt a new way of thinking, by calling on Islanders to embrace the idea of common purpose and determination.

"...the Speech from the Throne talked about the need for our Province to adopt a new way of thinking, by calling on Islanders to embrace the idea of common purpose and determination."

This Government believes that a unified approach to the Island's future will strengthen all parts of our Province.

Madame la Présidente, dans le discours du Trône, nous avons communiqué le besoin d'adopter une nouvelle façon de penser dans la province, en demandant aux Insulaires de soutenir le concept d'un objectif commun et d'une résolution commune.

Le présent gouvernement croit qu'une méthode d'approche unifiée par rapport à l'avenir de l'Île renforcera toutes les parties de notre province.

"Le présent gouvernement croit qu'une méthode d'approche unifiée par rapport à l'avenir de l'Île renforcera toutes les parties de notre province."

Madame Speaker, there have already been several announcements made to support this new idea. Two important Government departments will be relocated outside the capital city, and the new economic strategy embraces all sectors and communities.

The emphasis on modern infrastructure also includes the goal of making sure that all Island communities have access to broadband internet services.

This initiative will allow individual entrepreneurs to operate from anywhere on the Island - and help them to compete on a provincial, national and global basis.

"This year, Government will invest in the Rural Broadband Initiative, and we expect the entire Island will have access to these services in 2009."

This year, Government will invest in the Rural Broadband Initiative, and we expect the entire Island will have access to these services in 2009.

Madame Speaker, in keeping with the goal of communications modernization, Government will also spend $1 million on the Integrated Tourism Solution project, which will lead to a centralized reservations system and data collection program. In turn, this system will provide valuable knowledge to the industry, which will allow members to thoroughly understand trends and challenges.

"...Government will ... spend $1 million on the Integrated Tourism Solution project, which will lead to a centralized reservations system and data collection program."

Madame Speaker, we also believe it is time for the Province to take a close look at our Island's municipal framework.

It has been 25 years since the last province-wide changes to municipal structures on the Island were made. Further, there is a critical link between municipal governance, land use issues and future development.

For those reasons, a Commissioner on Land and Local Governance will be appointed to conduct a thorough review - including a broad examination of the fairness, equity and transparency of the provincial/municipal financial framework - and is expected to report in 2009 .

While this work is being done, Government understands that improvements must be made to the relationship between the Province and its municipalities.

Madame Speaker, when the new Government assumed office last summer, it became clear that the practices of the previous administration were not meeting current challenges.

"...when the new Government assumed office last summer, it became clear that the practices of the previous administration were not meeting current challenges."

Government feels it is important to address these issues and introduce greater fairness to the way the Province deals with Island communities.

For too long, municipalities have been paying the Provincial Government an administration fee to assess properties and collect property taxes. This has meant hundreds of thousands of dollars

meant to enrich our Island communities went straight into provincial coffers. We consider this a clawback.

Madame Speaker, we are pleased that Government will be returning that $780,000 to support services provided at the municipal level.

"...we are pleased that Government will be returning that $780,000 to support services provided at the municipal level."

Further, Government will begin to disburse payments to municipalities on a monthly basis.

Madame Speaker, for years, there has been an uneven distribution of the wealth in this Province. Our Government believes in the strength of *One Island Community*. We cannot thrive collectively if some of our communities are being treated inequitably.

"We cannot thrive collectively if some of our communities are being treated inequitably."

That's why we are supporting the implementation of a fully-funded equalization program, one that will ensure fairness and transparency. These are values that have been at the core of all of our decisions made on behalf of Islanders.

These initiatives combined represent an additional annual investment of $2.5 million in Island municipalities.

Madame Speaker, modernizing our infrastructure is an investment in our future, our environment, our economy and our health. This year, infrastructure investment will rise to unprecedented levels. With our Federal partners - who have demonstrated leadership and vision in the infrastructure agenda - we will soon be unveiling new community infrastructure programs.

"This year, infrastructure investment will rise to unprecedented levels."

These critically-important programs will go a long way to address the local infrastructure deficit, but there will remain some local needs that require additional support. The Province will launch a new multi-year Island Community Fund that will facilitate local infrastructure needs beyond the suite of Federal programs.

The Island Community Fund will invest $2.5 million in the current fiscal year and will grow to $5 million annually as local needs increase.

"The Island Community Fund will invest $2.5 million in the current fiscal year and will grow to $5 million annually as local needs increase."

Madame Speaker, I am pleased to announce today that my Government is committed to using the Island Community Fund to help finance a new parking garage in downtown Charlottetown. Pending the approval of our municipal partner, the City of Charlottetown, this strategic investment will help spur a multi-million dollar redevelopment in the downtown core, bringing new vitality to our historic capital city community.

The Island Community Fund will also be used to support smaller, though no less vital, community infrastructure initiatives. To this end, important local infrastructure like fire halls, community centres and recreational facilities not funded by other federal-provincial agreements will be eligible for funding support.

Further to that, Government remains committed to improving the safety of Prince Edward Island's roads and bridges through its Capital Program. This year, Government will make investments worth $31.6 million in roads and highway infrastructure. This represents the single largest, one-year investment in highway infrastructure over the last decade.

"This year, Government will make investments worth $31.6 million in roads and highway infrastructure. This represents the single largest, one-year investment in highway infrastructure over the last decade."

The Island's Place in the Larger Economy

Madame Speaker, in spite of concerns in the United States, our national economy appears to be on a solid footing.

Statistics Canada estimates that the national economy grew by 2.7 per cent in 2007, and all indications suggest stable growth this year as well.

The rise in strength of the Canadian dollar has been a source of some concern, especially for Island exporters. However, this has been balanced somewhat by lower costs for machinery and equipment.

Provincially, the Island economy grew by 1.8 per cent - and is expected to grow again this year by 1.9 per cent.

There has been a distinct improvement in employment opportunities for Islanders.

In fact, Madame Speaker, the unemployment rate in 2007 was at a 29 year low. Last month we saw record high employment in our province - with 71,000 jobs.

A particularly bright spot on the economic canvas is the sturdy growth in retail sales - which grew by 8.2 per cent in 2007 to reach $1.6 billion.

"A particularly bright spot on the economic canvas is the sturdy growth in retail sales - which grew by 8.2 per cent in 2007 to reach $1.6 billion."

Madame Speaker, the Government of Prince Edward Island participated in this activity - partly through its Capital Budget.

The 2008-2009 Capital Budget is $76.9 million, compared to $68.9 million in 2007-2008.

Fiscal Update

Madame Speaker, after far too many years of constant tax increases, the new Government took two major steps upon entering office in the Spring of 2007.

First, gasoline taxes were reduced by 4.4 cents per litre. This resulted in $6.6 million in savings for Islanders during the last fiscal year.

I am happy to say that reduction in gasoline tax will be continued into the current fiscal year, and it is estimated the reduction will leave $8.8 million in Islanders' hands.

"I am happy to say that reduction in gasoline tax will be continued into the current fiscal year, and it is estimated the reduction will leave $8.8 million in Islanders' hands."

The second major decision was to freeze the owner occupied component of residential property assessments. This will be of significant financial benefit to residential property owners across the Island.

Income taxes were reduced and tax credits for the disabled were improved.

Further, this year we will reduce small business corporate taxes by another 1.1 per cent. This will be followed by a 1.1 per cent reduction next year, in support of our goal of dramatically reducing small business corporate tax rates on the Island.

These reductions in corporate tax will be complemented by a thorough review of Government's regulatory regime, which will allow the private sector to more easily interact with the Government.

This "Red Tape" Review will be undertaken with input and guidance from the Island's business community.

Madame Speaker, Government is taking one revenue measure with today's budget.

"Recognizing the fact that increases in tobacco prices result in a reduction in smoking, Government will increase the cost of a carton of cigarettes by five dollars beginning at midnight."

Recognizing the fact that increases in tobacco prices result in a reduction in smoking, Government will increase the cost of a carton of cigarettes by five dollars beginning at midnight.

This measure will see an increase in revenue of an estimated $3.5 million, which will be devoted to important services like education and health care.

In fact, the measures outlined in this Budget to deal with cancer will be funded from increased tobacco tax revenue.

"...the measures outlined in this Budget to deal with cancer will be funded from increased tobacco tax revenue."

Conclusion

Madame Speaker, before I conclude my remarks, I want to thank both the staff in the Provincial Treasury and throughout Government for all their hard work on today's budget.

A great deal of effort goes into these documents, and over the last 12 months, staff have prepared three budgets.

I am particularly proud of the direction upon which we are embarking as a Government.

I believe in the years to come, as finances stabilize, that we will continue down an already-established path toward tax relief and improved services to Islanders.

"I believe in the years to come, as finances stabilize, that we will continue down an already-established path toward tax relief and improved services to Islanders."

Our priorities are clear - and the Premier's direction has been transparently demonstrated through the Speech from the Throne and the Province's new economic strategy.

Health care must remain as the primary focus for this Government - and improvements to the education system must be made in tandem.

"Health care must remain as the primary focus for this Government - and improvements to the education system must be made in tandem."

Today's budget helps to amplify and elaborate upon a plan that is based on purpose and determination.

I thank you for your kind attention and look forward to the debate over this Budget in the coming days, weeks and months.

Thank you.

BUDGET SCHEDULES

1. Budget Summary
2. Revenue Summary by Source
3. Expenditure Summary by Department
4. Summary of Budgeted Surplus (Deficit) of Crown Corporations
5. Summary of Depreciation of Tangible Capital Assets
6. Where the Money Comes From
7. Where the Money Goes
8. Cash Requirements
9. Summary Comparison - Provincial Tax Rates
10. Personal Income Tax Reductions

Schedule 1
Budget Summary

	2008-2009 Budget Estimate	2007-2008 Budget Forecast	2007-2008 Budget Estimate
	$	$	$
REVENUE			
Provincial Own Sources	771,450,900	726,284,300	714,805,100
Federal Sources	556,404,300	516,092,000	517,465,100
Sinking Fund Earnings	16,457,100	16,779,500	18,987,800
Net Consolidated Surplus of Crown Corporations	8,117,200	7,457,100	5,505,200
Total Revenue	1,352,429,500	1,266,612,900	1,256,763,200
EXPENDITURE			
Program Expenditures	1,229,054,800	1,148,257,000	1,139,067,300
Interest Charges on Debt	117,338,100	116,276,900	121,201,700
Operating Expenditure	1,346,392,900	1,264,533,900	1,260,269,000
Depreciation Expense	40,887,700	38,706,000	38,777,300
Total Expenditure	1,387,280,600	1,303,239,900	1,299,046,300
CONSOLIDATED SURPLUS (DEFICIT)	(34,851,100)	(36,627,000)	(42,283,100)

Schedule 2
Revenue Summary by Source

	2008-2009 Budget Estimate	2007-2008 Budget Forecast	2007-2008 Budget Estimate
	$	$	$
PROVINCIAL OWN SOURCES			
Taxes	664,174,400	625,223,600	612,621,600
Fees and Services	43,692,500	37,789,200	39,363,200
Sales	33,496,600	33,133,400	32,835,700
Licenses and Permits	18,281,100	18,400,900	18,050,100
Investments	11,806,300	11,737,200	11,934,500
Sub-Total	771,450,900	726,284,300	714,805,100
GOVERNMENT OF CANADA			
Equalization	321,686,000	293,958,000	293,958,000
Canada Health Transfer	98,823,000	95,870,000	94,693,000
Canada Social Transfer	44,171,000	41,842,800	41,119,000
Base Funding for Infrastructure	25,000,000	25,000,000	25,000,000
Infrastructure Programs	19,053,800	10,760,000	10,760,000
Wait Time Reduction	6,581,600	9,154,400	9,154,500
Canada Employment	5,000,000	5,000,000	5,000,000
Trust Fund for Clean Air and Climate Change	5,000,000	5,000,000	5,000,000
Community Development Trust	4,578,300	-	-
Housing Trusts	3,549,600	4,505,800	3,479,800
Public Transit Trust	2,708,500	1,066,500	3,775,000
Minority and Second Language	2,622,300	2,622,300	2,622,300
Young Offenders Services	2,021,000	2,021,000	2,112,200
Rehabilitation Programs	1,376,000	1,376,000	1,376,000
French Services Agreement	1,319,900	1,449,800	1,513,500
Post Secondary Education Trust	-	2,121,600	2,121,600
Other	12,913,300	14,343,800	15,780,200
Sub-Total	556,404,300	516,092,000	517,465,100
TOTAL CURRENT REVENUE	1,327,855,200	1,242,376,300	1,232,270,200
Sinking Fund Earnings	16,457,100	16,779,500	18,987,800
Net Consolidated Surplus of Crown Corporations	8,117,200	7,457,100	5,505,200
TOTAL OPERATING REVENUE	**1,352,429,500**	**1,266,612,900**	**1,256,763,200**

Schedule 3
Expenditure Summary by Department

	2008-2009 Budget Estimate	2007-2008 Budget Forecast	2007-2008 Budget Estimate
	$	$	$
CURRENT			
Agriculture	28,544,900	38,408,900	30,999,900
Communities, Cultural Affairs and Labour	75,200,900	42,909,500	43,539,600
Education and Early Childhood Development	194,273,500	182,852,900	183,235,000
Island Regulatory and Appeals Commission	1,200,000	1,200,000	1,200,000
Environment, Energy and Forestry	23,184,000	18,369,800	17,857,400
P.E.I. Energy Corporation	579,600	486,300	597,600
Executive Council	3,791,300	3,323,300	3,481,100
Fisheries, Aquaculture, and Rural Development	7,226,400	8,102,300	7,993,900
Employment Development Agency	3,751,900	3,102,500	3,108,900
Health	398,442,200	376,692,600	376,866,900
Innovation and Advanced Learning	81,878,600	76,634,500	75,297,800
Innovation PEI	28,364,700	32,898,300	29,128,300
P.E.I. Lending Agency	1,386,500	5,386,500	5,386,500
Office of the Attorney General	36,954,000	34,761,500	34,851,900
Provincial Treasury	35,258,500	32,988,900	33,913,100
Council of Atlantic Premiers	123,500	123,500	123,500
Employee Benefits	39,051,400	29,421,100	32,801,400
General Government	25,690,800	20,798,000	20,798,000
Technology Asset Management	2,300,000	2,160,000	2,300,000
Social Services and Seniors	119,361,500	115,263,300	114,330,400
Tourism PEI	23,850,400	24,537,200	24,107,900
Interministerial Women's Secretariat	428,700	427,000	427,000
Transportation and Public Works	89,666,400	89,014,800	88,404,700
Auditor General	1,553,700	1,468,400	1,524,300
Legislative Assembly	4,563,200	5,359,100	5,359,100
P.E.I. Public Service Commission	5,658,200	5,296,800	5,228,600
Depreciation Recorded in Crown Corporations	(3,230,000)	(3,730,000)	(3,795,500)
PROGRAM EXPENDITURE	1,229,054,800	1,148,257,000	1,139,067,300
Interest Charges on Debt	117,338,100	116,276,900	121,201,700
OPERATING EXPENDITURE	**1,346,392,900**	**1,264,533,900**	**1,260,269,000**

Schedule 4
Summary of Budgeted Surplus (Deficit) of Crown Corporations

	2008-2009 Budget Estimate	2007-2008 Budget Forecast	2007-2008 Budget Estimate
	$	$	$
Charlottetown Area Development Corporation[1]	85,000	5,100	(361,300)
Island Investment Development Inc.	4,100,000	2,654,000	1,300,000
Island Waste Management Corporation	(7,500)	1,259,500	3,200
P.E.I. Agriculture Research Investment Fund Inc.	(81,400)	(175,600)	(175,600)
P.E.I. Aquaculture and Fisheries Research Initiative Inc.	(223,000)	(197,500)	(321,600)
Prince Edward Island Agricultural Insurance Corporation	9,500	-	98,500
Prince Edward Island Energy Corporation	3,983,000	3,243,000	4,810,000
Prince Edward Island Grain Elevators Corporation	220,600	109,100	24,000
Prince Edward Island Self-Insurance and Risk Management Fund	200,000	518,000	200,000
Prince Edward Island Special Projects Fund	(250,000)	(125,000)	(125,000)
Summerside Regional Development Corporation [1]	81,000	166,500	53,000
NET CONSOLIDATED SURPLUS OF CROWN CORPORATIONS	8,117,200	7,457,100	5,505,200

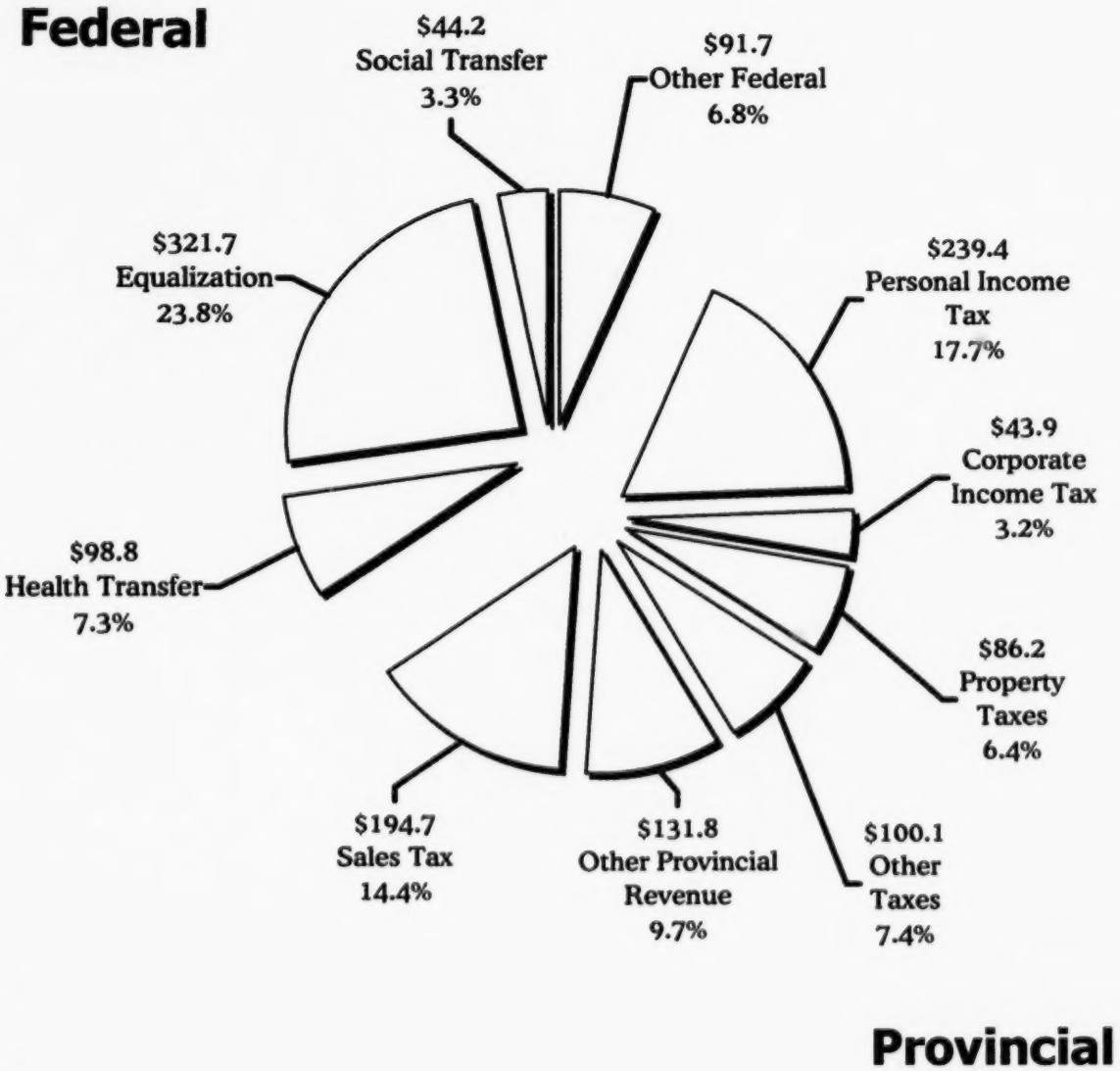
Notes

[1] Budget Estimates include 83% of the total surplus (deficit) of the Charlottetown Area Development Corporation; and 75% of the total surplus (deficit) of the Summerside Regional Development Corporation, to reflect the Province's ownership of these entities.

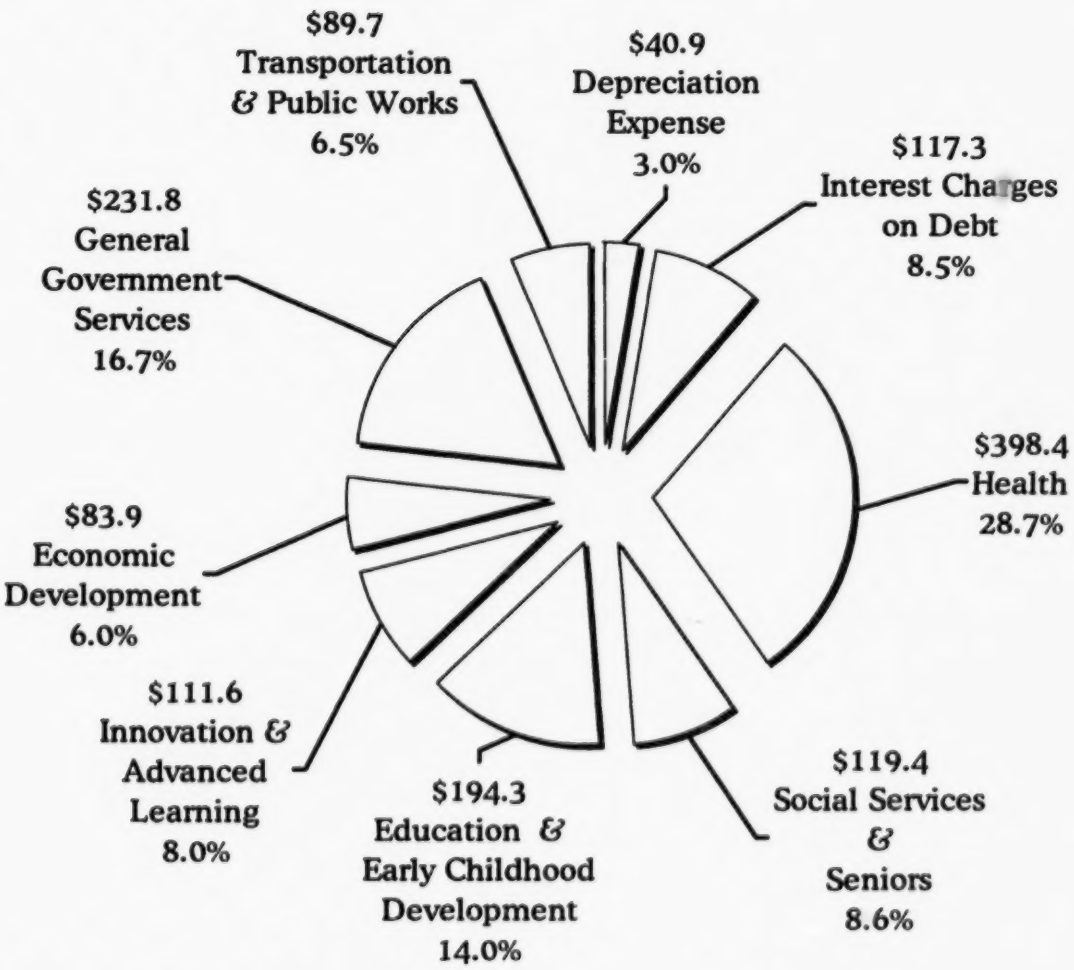
Schedule 5
Summary of Depreciation of Tangible Capital Assets

	2008-2009 Budget Estimate $	2007-2008 Budget Forecast $	2007-2008 Budget Estimate $
DEPRECIATION OF TANGIBLE CAPITAL ASSETS			
General Government:			
Buildings and Improvements	5,304,500	5,008,500	5,531,200
Lease Improvements	305,000	305,000	305,000
Roads and Bridges	15,978,800	15,472,200	15,234,900
Motor Vehicles	1,409,600	1,269,600	1,286,000
Equipment	7,280,900	6,219,700	5,602,000
Other	1,232,300	1,157,600	1,021,200
Total General Government	31,511,100	29,432,600	28,980,300
Depreciation Recorded in Expenditure Summary by Department:			
Innovation PEI	1,830,000	1,820,000	1,800,000
Tourism PEI	-	510,000	495,500
PEI Housing Corporation	1,400,000	1,400,000	1,500,000
Total Recorded in Expenditure Summary by Department	3,230,000	3,730,000	3,795,500
Other Sectors:			
Education Sector	6,106,600	5,503,400	5,971,500
PEI Museum and Heritage Foundation	5,000	5,000	5,000
Harness Racing PEI	10,000	10,000	-
Crown Building Corporation	25,000	25,000	25,000
Total Other Sectors	6,146,600	5,543,400	6,001,500
TOTAL DEPRECIATION EXPENSE	**40,887,700**	**38,706,000**	**38,777,300**

Schedule 6
Where the Money Comes From
2008-2009
($ Millions)



Schedule 7
Where the Money Goes
2008-2009
($ Millions)



Schedule 8
Cash Requirements

	2008-2009 Budget Estimate	2007-2008 Budget Forecast	2007-2008 Budget Estimate
CASH REQUIREMENTS			
Consolidated (Surplus) Deficit	34,851,100	36,627,000	42,283,100
Net Acquisition of Tangible Capital Assets	66,458,200	55,754,000	58,978,300
Depreciation	(40,887,700)	(38,706,000)	(38,777,300)
Net Borrowings on behalf of Crown Corporations	21,530,000	(35,000,000)	57,970,000
Sinking Fund Earnings	16,457,100	16,779,500	18,987,800
Sinking Fund Provisions	14,502,000	15,660,000	15,660,000
Change in Short-Term Payables/Receivables	(6,400,000)	(23,814,500)	(5,399,000)
Transfer to Pension Fund	21,200,000	21,200,000	21,200,000
Maturing Debt:			
Canada Pension Plan	9,703,000	10,010,000	10,010,000
Refinancing of Canada Pension Plan	(9,703,000)	(10,010,000)	(10,010,000)
Public Debentures	92,667,000	35,000,000	35,000,000
Maturities Financed by Sinking Fund	(59,700,000)	(35,000,000)	(35,000,000)
TOTAL CASH REQUIREMENTS	160,677,700	48,500,000	170,902,900
SOURCES OF CASH			
Operating Cash Account	-	23,500,000	-
Short-term Borrowing	60,677,700	25,000,000	70,902,900
Long-term Borrowing	100,000,000	-	100,000,000
TOTAL SOURCES OF CASH	160,677,700	48,500,000	170,902,900

Schedule 9

Summary Comparison - Provincial Tax Rates[1]

	Sales Tax (%)	Tobacco Tax ($/pk 25)	Fuel Tax Gasoline (¢/litre)	Fuel Tax Diesel (¢/litre)	Corporate Income Tax General (%)	Corporate Income Tax Small (%)
British Columbia	7.0	4.48	14.5	15.0	12.0	4.5
Alberta	0.0	4.63	9.0	9.0	10.0	3.0
Saskatchewan	5.0	4.58 [3]	15.0	15.0	12.0	4.5
Manitoba	7.0	4.38 [3]	11.5	11.5	14.0	1.0
Ontario	8.0	3.09	14.7	14.3	14.0	5.5
Quebec	7.5	2.58	15.2 [3]	16.2 [3]	11.4	8.0
New Brunswick	8.0	2.94 [3]	10.7 [3]	16.9 [3]	13.0	5.0
Nova Scotia	8.0	4.13 [3]	15.5 [3]	15.4 [3]	16.0	5.0
Newfoundland	8.0	4.50 [3]	16.5 [3]	16.5 [3]	14.0	5.0
Prince Edward Island	**10.0**	**4.99**	**7.1** [2]	**11.5** [2]	**16.0**	**3.2**
Atlantic Average	8.5	4.14	12.5	15.1	14.8	4.6
National Average	6.9	4.03	13.0	14.1	13.2	4.5

[1] Rates are effective as of **April 24, 2008**

[2] A 10.7% tax on the average wholesale price applies to a maximum of 8.7 c/l. Tax on Gasoline was reduced by 4.4 c/l on June 28, 2007.

[3] Provincial Sales Tax applies.

Schedule 10
Personal Income Tax Reductions
Annual Thresholds[1]

	2006 Amount	2007 Amount	2008 Amount
Basic Personal Amount [2]	$7,412	$7,560	$7,708
Spousal Amount [2]	$6,294	$6,420	$6,546
- Income Threshold	$629	$642	$655
Age Amount [2]	$3,619	$3,691	$3,764
- Income Threshold [2]	$26,941	$27,480	$28,019
2nd Tax Bracket Threshold [2]	$30,754	$31,369	$31,984
3rd Tax Bracket Threshold [2]	$61,509	$62,739	$63,969
Surtax Threshold	$5,200	$8,850	$12,500
Education Amount (Full-time Students)	$200	$400	$400
Education Amount (Part-time Students)	$60	$120	$120
Fiscal Year	**2006/07**	**2007/08**	**2008/09**
Value of Reduction [3]	$1,149,000	$5,370,000	$7,692,000

[1] Thresholds are effective January 1st of each respective taxation year.

[2] Thresholds will increase by 2% in 2007 and by 4% in 2008, over 2006 levels.

[3] The total value of these personal income tax reductions is $14,211,000.

BUDGET PAPER A:

BACKGROUND NOTES ON THE ECONOMY

BUDGET PAPER A:
HIGHLIGHTS OF THE PRINCE EDWARD ISLAND ECONOMY 2007 AND 2008

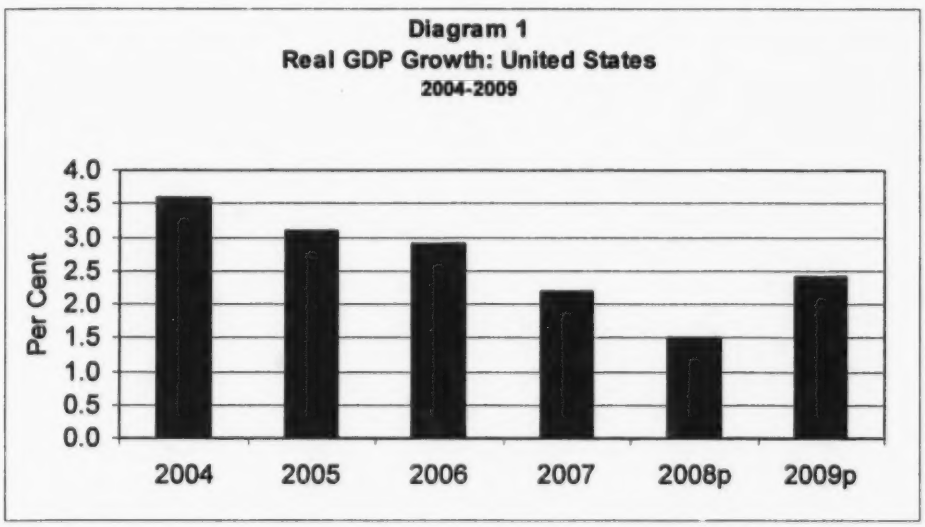
Economic Review and Outlook

The International Economy

The International Monetary Fund (IMF) predicts that the global economy should continue to expand in 2008, though the rate of growth will be slower than that experienced in previous years. The reason the IMF gives for this slower growth estimate is the spread of the U.S. sub-prime mortgage situation into broader financial markets. This worldwide slowdown will not occur evenly, with growth being slowest in advanced economies. According to the IMF, most of the growth that will occur in 2008 will be driven by emerging economies, such as China and India.

The American Economy

There is considerable evidence that the American economy is slowing down. The United States witnessed a fourth quarter growth rate of 0.6 per cent in 2007, and saw a moderate annual GPD growth rate of 2.2 per cent. This is somewhat lower than the 2006 growth rate of 3.1 per cent. As can be seen in Diagram 1, the rate of real GDP growth in the United States has been declining steadily for the last several years, and is expected to slow to 1.5 per cent in 2008, less than half the pace of seen in 2005, before picking up to 2.4 per cent in 2009.



One of the key features of American economy in 2007 was the expansion of the sub-prime mortgage situation into broader financial markets. There was a significant increase in the number of defaults in sub-prime mortgages in the wake of falling housing prices, causing credit standards to become more restrictive, further depressing housing demand, and increasing foreclosures. These events caused investors to re-evaluate their risk, and has resulted in a movement away from asset-backed securities, and the continued fragility of commercial paper. From closing highs in October 2007, most major indices have seen declines in the area of 10 per cent, erasing most of the gains seen through 2007.

Economic growth in the first two quarters of 2008 is expected to be relatively low, before rising in the second half of the year. Decreases in consumer spending, and a softening of the labour market combined with continued financial market instability, a tightening of credit markets, and a deepening of the sub-prime mortgage situation will put further pressure on U.S. economic growth. In response to these indications, the United States Federal Reserve has lowered the target federal funds rate by 300 basis points since September 2007 to 2.25 per cent, and has provided billions in liquidity to the financial system. In addition, the U.S. Government introduced an economic stimulus package equivalent to approximately 1 per cent of GDP.

The Canadian Economy

Statistics Canada estimates that the Canadian economy grew by 2.7 per cent in 2007. This matches the growth rate experienced in 2006, and is slightly down from the 2005 rate of 3.1 per cent. The Canadian economy appears to have been less affected by the slowdown in the U.S. economy in 2007. World demand for commodities at record prices and a strong labour market have offset the impact of the rise in the Canadian dollar and the slowdown in the U.S. economy.

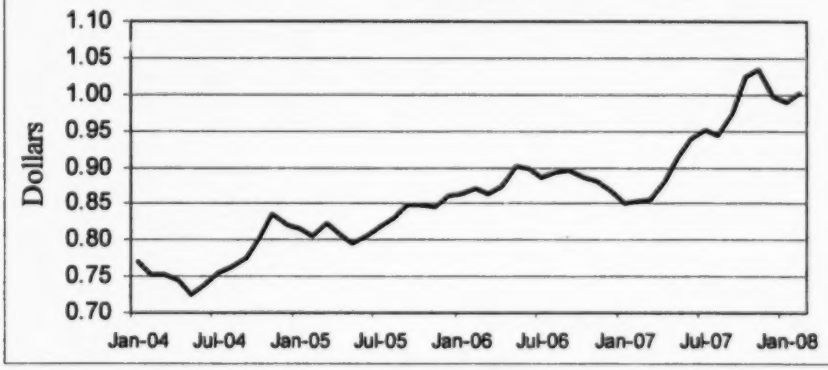
Western Canada led the country in economic growth in 2007, and is expected to continue to grow in 2008. This expansion is largely driven by natural resource developments. According to the Conference Board of Canada, Manitoba is expected to post the highest growth rate in 2008 with a second year of expansion at 3.7 per cent. The appreciation of the Canadian dollar and a weaker U.S. export market have dampened economic growth in both Ontario and Quebec, which are both expected to grow at a rate of 2.1 per cent in 2008.

Continued growth and new developments in the energy and mining sectors have spurred growth in the Atlantic region in 2007. These new developments will allow the region to experience continued growth in 2008. Newfoundland and Labrador saw a stellar rate of growth in 2007, at 7.3 per cent, the highest growth rate of any Canadian province. Growth is expected to slow in 2008, to 1.5 per cent, due to the winding down of several offshore oil and gas construction projects. Nova Scotia and New Brunswick recorded positive growth in 2007 at 1.8 per cent and 2.2 per cent respectively. Both of these provinces are expected to benefit from several new energy-related projects coming online in 2008. As a result, Nova Scotia should a see rate of growth of 2.6 per cent, while New Brunswick should see a growth rate of 2.2 per cent in 2008, according to the Conference Board of Canada estimates.

Canadian labour markets remained buoyant in 2007 with more than 400,000 new jobs created since the end of 2006. This job creation has benefitted all areas of the country with the majority of job growth occurring in the service sector, and the majority of job losses occurring in manufacturing and construction. Unemployment in Canada continued to fall, with the Jan-Dec 2007 unemployment rate at 6.0 per cent, down from the previous year's rate of 6.3 per cent, reducing the unemployment rate to its lowest level in 33 years. Labour income grew 6.1 per cent in 2007, down very slightly from its growth rate of 6.2 per cent in 2006. Strong labour markets and rising incomes have helped consumers. The number of housing starts increased by 0.4 per cent in 2007 to total 228,343 and the value of retail sales increased by 5.8 per cent.

The Canadian exchange rate with respect to the U.S. dollar continued its ascent in 2007, witnessing the Canadian dollar trading above par with the U.S. dollar for the first time since 1976. In 2007 the Canadian dollar reached its all time high against the U.S. dollar since the currency was allowed to float beginning in 1950, peaking at the noontime high of 1.09 cents U.S. on November 7, 2007. As can be seen in the diagram 2 below, the Canadian dollar appreciated sharply over the course of 2007, reaching an average monthly high of 1.03 cents U.S. in November 2007. Recently, the value of the dollar has fallen back slightly trading just under parity with the U.S. dollar.

Diagram 2
Monthly Exchange Rates: $US per $CAN
2004-2008



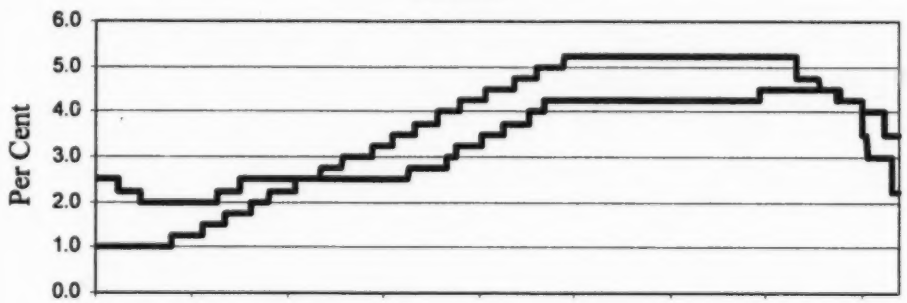
With the United States being Canada's largest trading partner, the appreciating dollar has had a detrimental impact on exports, particularly in sectors such as manufacturing and forestry which are also being affected by the lower demand for housing in the United States. The first three quarters of 2007 saw very low export growth, with substantial negative growth experienced in the fourth quarter (-2.2 per cent). However, the Canadian dollar has not appreciated as quickly with respect to other international currencies such as the Euro, and consequently, Canada has been able to make inroads into European, Asian and South American markets.

However, the appreciation of the Canadian dollar has not been all negative. Canadian consumers have benefitted from increased purchasing power, while the rise in price of products produced in Canada, such as oil and other mined materials, have bettered Canada's terms of trade. The strength of the Canadian dollar has also helped to insulate consumers for the dramatic increases in food prices experienced in other jurisdictions. The continued appreciation of the dollar has also meant that there has been significant investments made in machinery and equipment in 2007 by Canadian business due to lower import prices. This should lead to increases in future productivity.

The Bank of Canada was presented with a series of challenges with respect to conducting monetary policy. These include strong domestic demand, high energy prices, the sharp appreciation of the Canadian dollar versus the U.S. dollar, and the fallout in the wake of the U.S. sub-prime mortgage crisis. Despite these challenges, the central bank was able to keep inflation within the 1 to 3 per cent control range to average 2.2 per cent in 2007.

The key overnight rate set by the Bank of Canada held steady through the end of 2006 and most of 2007 at 4.25 per cent. July 2007 saw an increase in the overnight rate by 25 basis points, which stayed constant until the overnight rate was reduced in December back to 4.25 per cent. This rate was further lowered to 4.0 per cent in January of 2008, and lowered again in March 2008 to 3.5 per cent where it continues to hold. The Bank has indicated that future monetary stimulus is likely to be required in the near term, signaling the potential for future rate cuts. As can be seen in diagram 3 below, rates in both Canada and the United States were quite steady through the first half of 2007, with the American interest rate 75 basis points above the Canadian rate.

Diagram 3
Key Interest Rates: Canada and U.S.
2004-2008



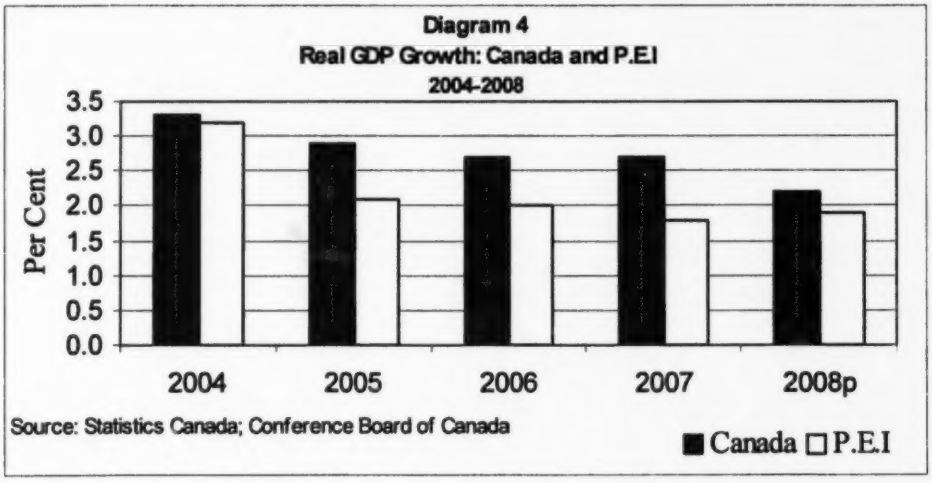
Sources: Bank of Canada; U.S. Federal Reserve

However, throughout the second half of 2007 and the beginning of 2008 interest rates in Canada and the United States both began to trend downward, with the United States cutting their rate dramatically and Canada first increasing, then decreasing the overnight rate at a more gradual pace.

Highlights of the Provincial Economy, 2007

- The P.E.I. economy grew at 1.8 per cent in 2007, and is expected to grow at 1.9 per cent in 2008.
- Employment on P.E.I. grew by 1.0 per cent during 2007 to average 69,300 people.
- The unemployment rate averaged 10.3 per cent for 2007, a 29 year low.
- In March 2008, employment on P.E.I. reached 71,000 people, an all-time high.
- Labour income was 5.2 per cent higher relative to the same period in 2006.
- The value of retail spending was up 8.2 per cent in 2007 to total $1,603 million.
- Total public and private capital investment in P.E.I. reached $943.7 million in 2007, up 14.1 per cent from 2006 levels.
- The housing sector on P.E.I. had 1.6 per cent more starts in 2007 than in 2006.

P.E.I. experienced a growth rate of 1.8 per cent in 2007, and is expected to continue to experience stable economic growth at a rate of 1.9 per cent in 2008, as can be seen in Diagram 4.



Employment

Employment on Prince Edward Island grew by 1.0 per cent during 2007 to average 69,300. This was almost twice the rate of 0.6 per cent growth experienced in 2006, and marked the tenth consecutive year of employment growth on P.E.I. Most of the gains in employment were made in the service producing sectors, which grew at a rate of 3.4 per cent in 2007 to employ 51,400 people. This growth offset losses in the goods producing sector, which declined 5.3 per cent in 2007. Table 1 shows the average employment levels by industry. As can be seen below, the biggest losses in 2007 occurred in agriculture, construction and professional service, while the largest gains occurred in trade, finance, insurance and real estate, and accommodation and social services. In March 2008, employment on P.E.I. reached a new high of 71,000.

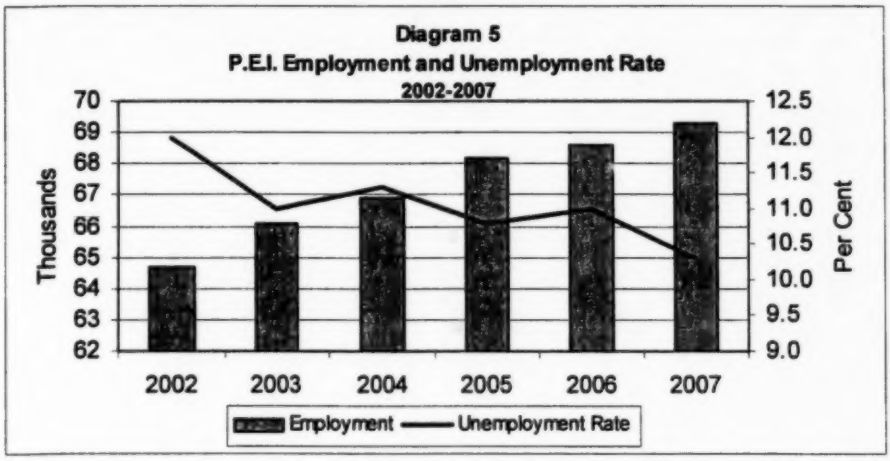
Table 1
Prince Edward Island
Employment By Industry, 2006 - 2007

in thousands, not adjusted	2006	2007	% Change
Employment All Industries	**68.6**	**69.3**	**1.0**
Goods-producing sector:	**18.9**	**17.9**	**-5.3**
Agriculture	3.9	3.6	-7.7
Forestry, Fishing, & Mining	2.4	2.4	0.0
Utilities	0.3	0.3	0.0
Manufacturing	6.6	6.7	1.5
Construction	5.7	5.0	-12.3
Service-producing Sector:	**49.7**	**51.4**	**3.4**
Trade	9.9	10.5	6.1
Transportation & Warehousing	2.2	2.3	4.5
Finance, Insurance, Real Est.	2.1	2.7	28.6
Professional services	2.8	2.2	-21.4
Management & Admin. services	2.8	2.8	0.0
Educational services	4.6	4.7	2.2
Health Care & Social services	7.9	8.3	5.1
Public Administration	6.3	6.6	4.8
Information, Culture & Recreation	2.6	2.7	3.8
Accommodation & Food services	5.6	5.9	5.4
Other services	2.9	2.8	-3.4

Source: Statistics Canada, CANSIM Table 282-0008

The unemployment rate averaged 10.3 per cent for 2007, a 29 year low, and a marked improvement from 11.0 per cent recorded in 2006. In October 2007, the unemployment rate fell to 8.8 per cent, the lowest monthly rate since January 1977. Diagram 5 shows P.E.I.'s average annual employment

levels and unemployment rates for the most recent six years. As can be seen, a steady gain in employment has resulted in a decline in the unemployment rate.

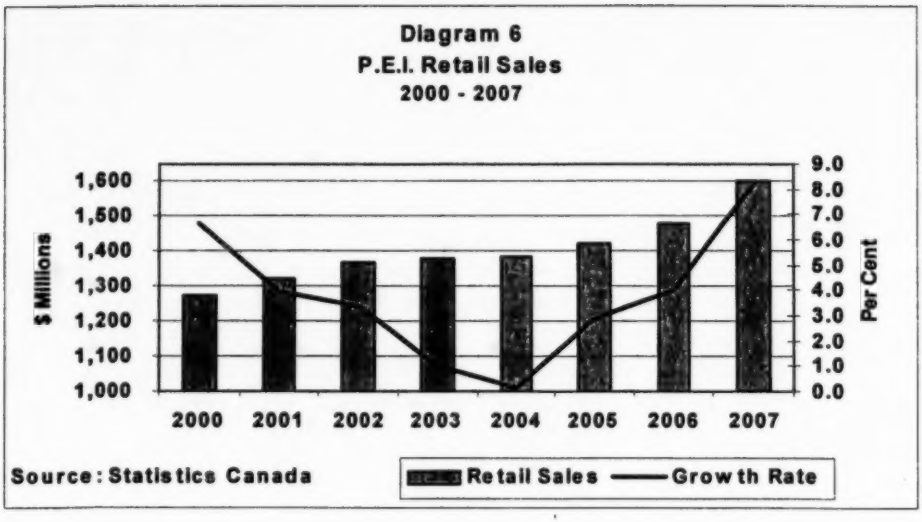


Labour Income

The value of total labour income on P.E.I. grew by 5.2 per cent in 2007, almost twice the rate seen in 2006. Income growth in 2007 was generally widespread across industries, but with notable gains in professional services, health care and social assistance, and Federal Government public administration.

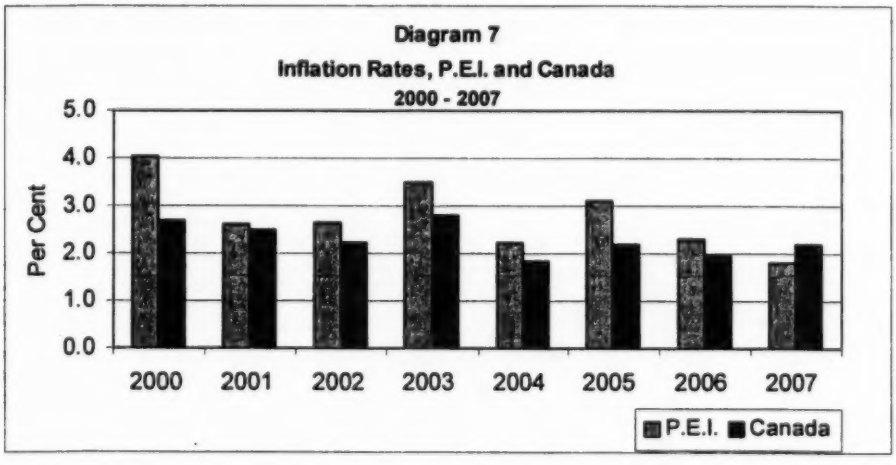
Retail sales

The value of retail spending in Prince Edward Island totaled $1,603 million in 2007, up by 8.2 per cent over 2006. Rising employment and incomes on P.E.I. helped retail sales advance at their fastest pace since 1999. This was driven largely by increased sales at new and used car dealerships and gasoline stations. Growth in the value of retail sales has accelerated since 2004. Diagram 6 shows annual retail sales and growth rates since 2000.



Consumer Prices

In 2007, the all-items consumer price index, as measured by Statistics Canada, averaged 1.8 per cent higher relative to 2006. This compares to the Canadian inflation rate in 2007 of 2.2 per cent. Inflation increased for volatile commodities, such as food (3.4 per cent), shelter (2.8 per cent), and energy (2.7 per cent). The increase in energy prices in 2007 was more moderate than the 4.9 per cent increase in 2006. Energy prices rose during late 2007 and into 2008. Home heating oil reached 107 cents per liter in April 2008, compared to 73.9 cents per liter in April 2007. Lower prices were seen in prescribed medicines (-1.0 per cent) and medicinal and pharmaceutical products (-0.7 per cent). Nationally, inflation has been mitigated by the rising Canadian dollar, and more recently by the reduction in the GST.



Primary Industries

The Island's primary industries in 2007 did not keep pace with their record setting performance in 2006. As can be seen in Table 2, total farm cash receipts in 2007 declined by 3.4 per cent. Crop receipts declined by 7.6 per cent. A 7.9 per cent decline in the volume of the 2007 potato crop along with reduced potato prices caused receipts to decline by 11 per cent for the year. Improving wheat prices and barley production helped to increase receipts for other crops by 13.5 per cent. A 3.4 per cent increase in livestock receipts was led by an 8.1 per cent increase in dairy receipts.

Continued low prices for hogs have depressed hog receipts on P.E.I. for the fourth consecutive year. Cattle receipts improved by 4.5 per cent. Direct payments to farmers increased by 4.3 per cent in 2007 to total $22.2 million. This however remains well below the $45.9 million in government supports recorded 2005.

Table 2
P.E.I. Farm Cash Receipts
2003 - 2007

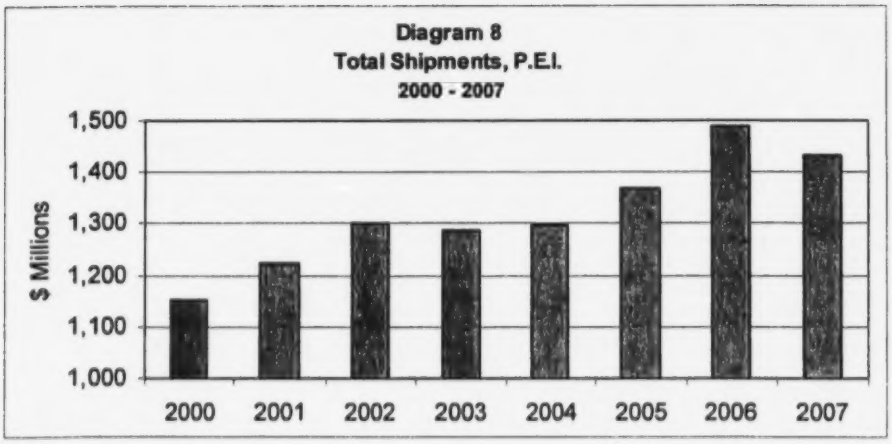
in '000s Year:	Potatoes	Total Crops	Cattle	Hogs	Dairy	Total Livestock	Direct Payments	Total Farm Receipts
2003	$185,266	$219,098	$18,186	$26,562	$55,023	$113,382	$22,750	$355,230
	-2.4%	-0.6%	-28.2%	-4.1%	3.2%	-4.9%	-6.6%	-2.4%
2004	$151,250	$185,582	$14,550	$33,955	$59,717	$122,989	$40,226	$348,797
	-18.4%	-15.3%	-20.0%	27.8%	8.5%	8.5%	76.8%	-1.8%
2005	$165,325	$195,812	$21,592	$27,538	$61,612	$125,272	$45,874	$366,958
	9.3%	5.5%	48.4%	-18.9%	3.2%	1.9%	14.0%	5.2%
2006	$202,905	$234,488	$20,966	$23,882	$63,087	$121,822	$21,343	$377,653
	22.7%	19.8%	-2.9%	-13.3%	2.4%	-2.8%	-53.5%	2.9%
2007	$180,647	$216,585	$21,918	$20,961	$68,177	$126,022	$22,253	$364,860
	-11.0%	-7.6%	4.5%	-12.2%	8.1%	3.4%	4.3%	-3.4%

Source: Statistics Canada, CANSIM Table 002-0001

The P.E.I. Department of Fisheries, Aquaculture and Rural Development estimates that fish landings totaled $166.8 million in 2007, a decline of 2.8 per cent from the all-time-high set in 2006. Following a 15 year high set in 2006, lobster landings declined by 6.3 per cent to 20.1 million pounds with an estimated value of $108.6 million

Manufacturing Shipments and Exports

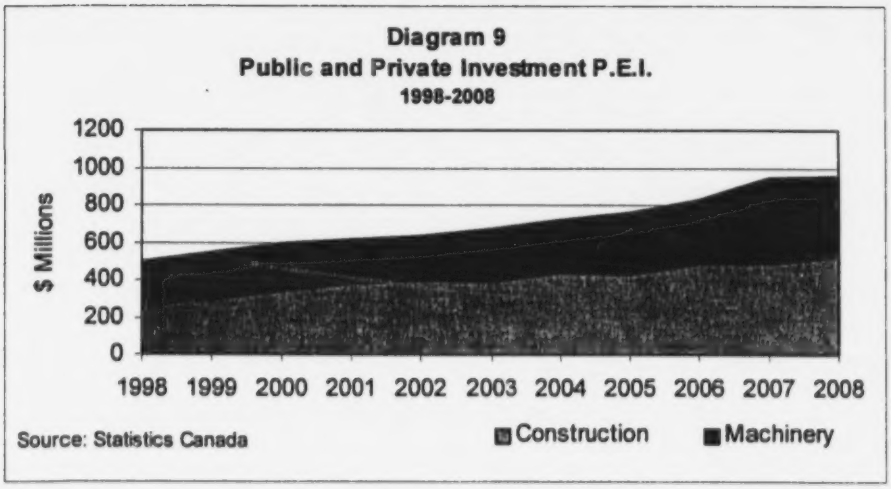
Increased manufacturing and exports were seen in processed fish products (up 3.3 per cent) and chemicals (up 30.8 per cent) in 2007. However, these gains were offset in part by a decrease in fabricated metal manufacturing shipments, down 67.4 per cent from 2006 levels. Consequently, the value of 2007 manufacturing shipments decreased by 4 per cent relative to 2006 figures, to a value of $1,430.7 million.



Provincial exports destined for international markets valued $767 million in 2007, a decrease of 2.5 per cent compared to 2006. There were decreases in most areas of production, notably agriculture and fishing, forestry products and industrial goods. However, there were positive gains made in machinery and equipment, parts and consumer goods, though these gains were not enough to offset losses in other areas.

Capital Expenditures

Total public and private capital investment in P.E.I. reached $943.7 million in 2007, up 14.1 per cent from 2006 levels. This was achieved largely through increases in machinery and equipment purchases. The value of construction on Prince Edward Island declined slightly in 2007 from performance in 2006 as major construction projects on the Island wrapped up, but remains high by historical standards. Capital investment has increased steadily since 1998, and increased by 1.7 per cent in 2008, as seen in Diagram 9. This increased growth will be the result of both increases in construction and machinery investment. Continued strong performance in private and public investment in P.E.I. both in 2007 and into 2008 can be attributed to a robust housing sector, public investment in new hospital infrastructure, the construction of several new buildings in the Charlottetown and Summerside areas, and investments in new wind energy projects and electricity transmission lines. The Government of Prince Edward Island recently committed to developing 500MW of wind energy on P.E.I. in the next five years.



The housing sector grew in P.E.I. in the final three quarters of 2007 to end the year with 1.6 per cent more housing starts as compared to 2006. This marks the first increase in housing starts since 2004. Though the Canadian Housing and Mortgage Corporation (CMHC) predicts that new housing starts will decline by 6.7 per cent in 2008, Statistics Canada predicts that the value of new housing construction is expected to remain constant at $249 million, largely due to the construction of more expensive homes.

Tourism

Tourism indicators were positive in 2007. The Department of Tourism estimates total expenditures by non-resident tourists reached $293.9 million during 2007, an increase of 4.4 per cent from the previous year. The number of tourists coming to P.E.I. increased by an estimated 1.1 per cent to reach 1.375 million. Air passenger traffic was up 12 per cent, bridge traffic was up 1 per cent and the number of rooms nights sold increased by 3.5 per cent. These gains were made despite the negative impact that high gasoline prices, a rising Canadian dollar and passport restrictions had on the industry.

Outlook for 2008

There is variation among forecasts as to the magnitude of Canada's economic growth in 2008. The economic analysis released by the Federal Department of Finance predicts that economic growth will slow to 1.7 per cent in 2008 and increase to 2.4 per cent in 2009. Meanwhile, contingent on the stabilization of the exchange rate and a recovering U.S. economy, the Conference Board of Canada is forecasting a growth rate of 2.2 per cent for 2008, and 3.0 per cent for 2009.

Some private sector, and government, forecasts predicted a pessimistic outlook for the beginning of 2008, recently released economic data suggests a brighter picture. Economic growth increased 0.6 per cent in January, bouncing back from the 0.7 per cent decline observed in December 2007. The

growth in GDP, was broadly based, and largely driven by manufacturing and wholesale trade, reversing the decline seen in the fourth quarter of 2007.

Employment growth continues to increase with 104,300 new jobs created during the first quarter of 2008. Retail sales figures continue to be strong, increasing 1.5 per cent in January, the sixth consecutive month of growth. Domestic demand remains strong in Canada due to real income growth and despite the problems in the housing sector being experienced south of the border.

The Conference Board of Canada estimates that the P.E.I. economy grew by 1.8 per cent in 2007 and projects growth of 1.9 per cent in 2008. Employment is forecast to increase by 0.7 per cent resulting in the unemployment rate to decline to average 10.1 per cent for the year. An increase in food production, manufacturing and construction will lead growth in the goods producing sector on P.E.I. in 2008.

SUMMARY STATISTICS
PRINCE EDWARD ISLAND ECONOMY

	2000	2001	2002	2003	2004	2005	2006	2007
Population on 1 July (thousands) *	136.5	136.7	136.9	137.3	137.9	138.2	138.0	138.6
Personal Income per capita ($) *	22,382	22,679	23,810	24,292	25,326	26,065	26,920	28,419f
As % of Canadian Personal Income	*81.7*	*80.3*	*83.1*	*82.5*	*82.8*	*81.9*	*80.7*	*80.6*
Employment (thousands) *	62.7	63.6	64.7	66.1	66.9	68.2	68.6	69.3
Unemployment rate - P.E.I. (%) *	12.1	11.9	12.0	11.0	11.3	10.8	11.0	10.3
*Unemployment Rate - Canada (%) **.	*6.8*	*7.2*	*7.7*	*7.6*	*7.2*	*6.8*	*6.3*	*6.0*
CPI - annual change P.E.I. (%)	4.1	2.6	2.7	3.5	2.2	3.1	2.3	1.8
CPI - annual change Canada (%)	*2.7*	*2.5*	*2.2*	*2.8*	*1.8*	*2.2*	*2.0*	*2.2*
Retail Trade ($ millions) *	1,273.9	1,324.6	1,369.0	1,382.6	1,384.7	1,423.9	1,481.3	1,602.6
New Motor Vehicle Sales (units)*	4,902	4,635	4,996	4,731	4,696	4,847	4,933	5,303
Farm Cash Receipts ($ millions) *	323.1	336.2	364.1	355.2	348.8	367.0	377.7	364.9
Potato Receipts ($ millions) *	154.5	123.9	189.9	185.3	151.3	165.3	202.9	180.6
Lobster Landings ($ millions) *	87.8	103.9	105.4	108.3	100.1	103.2	113.4	108.6
Lobster Landings (lbs - millions)	*19.1*	*19.3*	*19.9*	*20.0*	*19.9*	*18.5*	*21.5*	*20.1*
Housing Starts (units)	710	675	775	814	919	862	738	750
Investment ($ millions)	596.4	616.4	639.1	677.0	723.6	758.8	827.3	943.7
Manufact. Shipments ($ millions)*	1,150.6	1,222.0	1,300.3	1,287.4	1,297.6	1,369.1	1,490.0	1,430.7
International Exports in Goods ($ millions)*	682.9	666.4	683.0	637.6	644.4	772.8	786.6	767.0
GDP at market prices ($ millions) *	3,366	3,431	3,701	3,798	3,994	4,118	4,304	4,526f

n.a.: data not available

Notes:

* : revised data

f: forecast, Conference Board of Canada

Sources: Statistics Canada; Conference Board of Canada;; and P.E.I. Department of Fisheries, Aquaculture, and Rural Development